

**KEYSTONE AREA EDUCATION  
AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2004**

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# KEYSTONE AREA EDUCATION AGENCY 1

## OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
<b>Board of Directors</b>		
Craig Morrison	President	2004
Merle Gaber	Vice President	2004
Robert Brown	Member	2005
John Ganshirt	Member	2004
Norman Miller	Member	2005
Francis Peterson	Member	2004
Walter Pregler	Member	2005
John Perrenoud	Member	2006
Bill Withers	Member	2004
<b>Agency</b>		
Robert Vittengl	Administrator	2004
Bob Shaw	Administrative Assistant and Treasurer	2004
Candace Brockmeyer	Board Secretary	2004
Carol Crandall	Business Department Manager	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2004, which collectively comprise the Keystone Area Education Agency 1's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated July 22, 2004, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 25 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard's Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
July 22, 2004

## **KEYSTONE AREA EDUCATION AGENCY 1**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

### **2004 FINANCIAL HIGHLIGHTS**

General Fund revenues in 2004 (FY04) were \$18,560,623 while General Fund expenditures for FY04 were \$18,713,683. This resulted in a decrease in the Agency's General Fund balance from \$1,644,220 in FY03 to \$1,491,160 in FY04, a 10% decrease from the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### USING THIS ANNUAL REPORT (Continued)

#### **Reporting the Agency as a Whole**

The Statement of Net Assets and the Statement of Activities

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.
- *Business-type activities:* The Agency coordinates the cooperative purchasing program, but the vendors direct bill the school districts, so this fund is no longer necessary.

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole (Continued)**

##### **Fund Financial Statements (continued)**

The Agency has two kinds of funds:

1. Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

This fund was not necessary in FY04 due to the vendors direct billing the school districts.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2004 totaled approximately 2.5 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2004 for the governmental activities.

	<b>Condensed Statement</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2003	2004	2003	2004
Current and other assets	\$ 7,885,190	\$ 8,579,166	\$ -	\$ -
Capital assets	5,573,975	5,317,523	-	-
<b>Total assets</b>	<b>13,459,165</b>	<b>13,896,689</b>	<b>-</b>	<b>-</b>
Long-term obligations	4,558,915	4,514,340	-	-
Other liabilities	6,086,946	6,915,211	-	-
<b>Total liabilities</b>	<b>10,645,861</b>	<b>11,429,551</b>	<b>-</b>	<b>-</b>
Net assets:				
Invested in capital assets, net of related debt	1,132,994	967,120	-	-
Restricted	447,436	455,292	-	-
Unrestricted	1,232,874	1,044,726	-	-
<b>Total net assets</b>	<b>\$ 2,813,304</b>	<b>\$ 2,467,138</b>	<b>\$ -</b>	<b>\$ -</b>

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**of Net Assets**

<b>Total School District</b>		<b>Percentage</b>
<b>2003</b>	<b>2004</b>	<b>Change</b>
		<b>2003-2004</b>
\$ 7,885,190	\$ <b>8,579,166</b>	8.8 %
5,573,975	<b>5,317,523</b>	(4.6)
13,459,165	<b>13,896,689</b>	3.3
4,558,915	<b>4,514,340</b>	(1.0)
6,086,946	<b>6,915,211</b>	13.6
10,645,861	<b>11,429,551</b>	7.4
1,132,994	<b>967,120</b>	(14.6)
447,436	<b>455,292</b>	1.8
1,232,874	<b>1,044,726</b>	(15.3)
<u>\$ 2,813,304</u>	<u>\$ <b>2,467,138</b></u>	(12.3)%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2004:

	Changes in			
	Governmental Activities		Business-type Activities	
	2003	2004	2003	2004
Revenues:				
Program revenues:				
Charges for service	\$ 419,302	\$ 606,241	\$ 13,192	\$ -
Operating grants and contributions	7,138,600	8,178,950	-	-
General revenues:				
Property taxes	10,525,739	9,850,561	-	-
Unrestricted investment earnings	72,985	55,072	-	-
Gas tax refund	2,266	2,028	-	-
<b>Total revenues</b>	<b>18,158,892</b>	<b>18,692,852</b>	<b>13,192</b>	<b>-</b>
Program expenses:				
Instruction	94,340	117,070	-	-
Student support services	7,472,060	8,453,227	-	-
Instructional staff support services	4,950,401	5,669,032	-	-
General administration	2,551,149	2,711,642	-	-
Business administration	470,734	569,116	-	-
Plant operations and maintenance	780,747	964,696	-	-
Central and other support services	307,204	299,130	-	-
Interest on long-term debt	237,365	255,105	-	-
Non-instructional programs	-	-	13,595	-
<b>Total expenses</b>	<b>16,864,000</b>	<b>19,039,018</b>	<b>13,595</b>	<b>-</b>
Other financing (uses):				
Reversion to State Treasurer	(517,120)	-	-	-
Increase (decrease) in net assets	777,772	(346,166)	(403)	-
Net assets beginning of year	2,035,532	2,813,304	403	-
Net assets end of year	\$ 2,813,304	\$ 2,467,138	\$ -	\$ -

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**Net Assets**

<b>Total School District</b>		<b>Percentage</b>
<b>2003</b>	<b>2004</b>	<b>Change</b>
		<b>2003-2004</b>
\$ 432,494	\$ 606,241	29.0 %
7,138,600	8,178,950	13.0
10,525,739	9,850,561	(7.0)
72,985	55,072	(33.0)
2,266	2,028	(12.0)
18,172,084	18,692,852	3.0
94,340	117,070	19.0
7,472,060	8,453,227	12.0
4,950,401	5,669,032	13.0
2,551,149	2,711,642	6.0
470,734	569,116	21.0
780,747	964,696	19.0
307,204	299,130	(3.0)
237,365	255,105	7.0
13,595	-	0.0
16,877,595	19,039,018	11.0 %
(517,120)	-	0.0
777,369	(346,166)	325.0
2,035,935	2,813,304	38.0
\$ 2,813,304	\$ 2,467,138	(12.0)%

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Operating grants and contributions from state and federal sources account for 44% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 74.2% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$18,692,852 and expenses were \$19,039,018.

### **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances decreased from \$ 1,644,220 to \$1,491,160. The primary reason for the decrease in combined fund balances in FY 04 was due in part to the high costs of collective bargaining settlements attributable to an increase in health insurance rates.

#### **Governmental Fund Highlights**

The Agency's General Fund financial position decreased as a result of a decrease in property tax on the revenue side, and increased personnel costs.

#### **Budgetary Highlights**

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

On June 30, 2004, The Agency had invested 5.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$564,104 in FY04 and total accumulated depreciation of \$5 million on June 30, 2004. More detailed information about capital assets is available in Note 4 to the financial statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency's salary and benefit costs increased for FY 05 from 3.92% to 7.34%, depending on employee group. These settlements exceeded the rate of growth of state funding and will have an adverse effect on the Agency's general fund budget.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Keystone Area Education Agency, 1400 2<sup>nd</sup> St N.W., Elkader, Iowa, 52043-9564.

**KEYSTONE AREA EDUCATION AGENCY 1**

## **BASIC FINANCIAL STATEMENTS**



## STATEMENT OF NET ASSETS

June 30, 2004

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 2,457,687	\$ -	\$ 2,457,687
Receivables:			
Accounts	232,551	-	232,551
Due from other governments	1,565,719	-	1,565,719
Interest	3,062	-	3,062
Inventories	37,129	-	37,129
Prepaid expenses	4,147	-	4,147
Restricted ISCAP assets:			
Investments	4,275,125	-	4,275,125
Accrued interest receivable	3,746	-	3,746
Capital assets (net of accumulated depreciation)	5,317,523	-	5,317,523
<b>Total assets</b>	<b>13,896,689</b>	<b>-</b>	<b>13,896,689</b>
<b>Liabilities</b>			
Accounts payable	198,152	-	198,152
Salaries and benefits payable	1,814,982	-	1,814,982
Interest payable	37,378	-	37,378
ISCAP warrants payable	4,251,000	-	4,251,000
Deferred revenue:			
Federal	291,329	-	291,329
Miscellaneous	77,265	-	77,265
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	180,000	-	180,000
Compensated absences	65,105	-	65,105
Portion due or payable after one year:			
Capital leases	4,170,403	-	4,170,403
Compensated absences	343,937	-	343,937
<b>Total liabilities</b>	<b>11,429,551</b>	<b>-</b>	<b>11,429,551</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	967,120	-	967,120
Restricted for:			
Phase III	37,392	-	37,392
Debt service	417,900	-	417,900
Unrestricted	1,044,726	-	1,044,726
<b>Total net assets</b>	<b>2,467,138</b>	<b>-</b>	<b>2,467,138</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,896,689</b>	<b>\$ -</b>	<b>\$ 13,896,689</b>

See Notes to Financial Statements.

# KEYSTONE AREA EDUCATION AGENCY 1

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Functions/Programs:</b>			
Governmental Activities:			
Instruction	\$ 117,070	\$ -	\$ -
Student support services	8,453,227	403,048	8,130,236
Instructional staff support services	5,669,032	166,940	34,997
General administration	2,711,642	-	-
Business administration	569,116	49,970	-
Plant operations and maintenance	964,696	-	-
Central and other support services	299,130	-	-
Interest on long-term debt	255,105	-	-
Total	<u>\$ 19,039,018</u>	<u>\$ 619,958</u>	<u>\$ 8,165,233</u>

### General revenues:

Property taxes  
Unrestricted investment earnings  
Gas tax refund

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (117,070)	\$ -	\$ (117,070)
80,057	-	80,057
(5,467,095)	-	(5,467,095)
(2,711,642)	-	(2,711,642)
(519,146)	-	(519,146)
(964,696)	-	(964,696)
(299,130)	-	(299,130)
(255,105)	-	(255,105)
(10,253,827)	-	(10,253,827)
9,850,561	-	9,850,561
55,072	-	55,072
2,028	-	2,028
(346,166)	-	(346,166)
2,813,304	-	2,813,304
\$ 2,467,138	\$ -	\$ 2,467,138

**BALANCE SHEET - GOVERNMENTAL FUNDS****June 30, 2004**

	<b>Nonmajor Governmental</b>		
	<b>General</b>	<b>Funds</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 1,997,329	\$ 460,358	\$ 2,457,687
Receivables:			
Accounts	232,551	-	232,551
Due from other governments	1,564,062	1,657	1,565,719
Interest	3,062	-	3,062
Inventories	37,129	-	37,129
Prepaid expenditures	4,147	-	4,147
Restricted ISCAP assets:			
Investments	4,275,125	-	4,275,125
Accrued interest receivable	3,746	-	3,746
<b>Total assets</b>	<b>\$ 8,117,151</b>	<b>\$ 462,015</b>	<b>\$ 8,579,166</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable	\$ 196,838	\$ 1,314	\$ 198,152
Salaries and benefits payable	1,803,081	11,901	1,814,982
Interest payable	6,478	30,900	37,378
ISCAP warrants payable	4,251,000	-	4,251,000
Deferred revenue:			
Federal	291,329	-	291,329
Miscellaneous	77,265	-	77,265
<b>Total liabilities</b>	<b>6,625,991</b>	<b>44,115</b>	<b>6,670,106</b>
Fund balances:			
Reserved for:			
Inventories	37,129	-	37,129
Prepaid expenditures	4,147	-	4,147
Phase III	37,392	-	37,392
Media materials	436	-	436
Unreserved:			
Designated for subsequent year's expenditures	514,776	-	514,776
Undesignated	897,280	417,900	1,315,180
<b>Total fund balances</b>	<b>1,491,160</b>	<b>417,900</b>	<b>1,909,060</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,117,151</b>	<b>\$ 462,015</b>	<b>\$ 8,579,166</b>

See Notes to Financial Statements.

## RECONCILIATION OF BALANCE SHEET--

## GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total governmental fund balances (page 13)	\$ 1,909,060
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*Amounts reported for governmental activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$ 10,318,713 and the accumulated depreciation is \$ 5,001,190.

5,317,523

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(4,759,445)

**Net assets of governmental activities (page 11)**

\$ 2,467,138

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2004**

	<b>Nonmajor Governmental</b>		
	<b>General</b>	<b>Funds</b>	<b>Total</b>
Revenues:			
Local sources	\$ 6,135,625	\$ -	\$ 6,135,625
State sources	4,759,214	132,229	4,891,443
Federal sources	7,665,784	-	7,665,784
<b>Total revenues</b>	<b>18,560,623</b>	<b>132,229</b>	<b>18,692,852</b>
Expenditures:			
Current:			
Instruction	1,336	115,912	117,248
Student support services	8,422,985	-	8,422,985
Instructional staff support services	5,623,254	966	5,624,220
General administration	2,685,269	5,775	2,691,044
Business administration	571,982	-	571,982
Plant operations and maintenance	759,042	9,576	768,618
Central and other support services	296,276	-	296,276
Debt service	-	345,683	345,683
<b>Total expenditures</b>	<b>18,360,144</b>	<b>477,912</b>	<b>18,838,056</b>
Excess (deficiency) of revenues over (under) expenditures	<b>200,479</b>	<b>(345,683)</b>	<b>(145,204)</b>
Other financing sources (uses):			
Transfers in	-	353,539	353,539
Transfers out	(353,539)	-	(353,539)
<b>Total financing sources (uses)</b>	<b>(353,539)</b>	<b>353,539</b>	<b>-</b>
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<b>(153,060)</b>	<b>7,856</b>	<b>(145,204)</b>
Fund balances, beginning of year	<b>1,644,220</b>	<b>410,044</b>	<b>2,054,264</b>
Fund balances, end of year	<b>\$ 1,491,160</b>	<b>\$ 417,900</b>	<b>\$ 1,909,060</b>

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES --  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004**

**Net change in fund balances - total governmental funds (page 15)** \$ (145,204)

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 350,017	
Depreciation expense	<u>(564,104)</u>	(214,087)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources (42,366)

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. This balance represents principal repayment of \$195,000, net of financed interest charges of \$104,422. 90,578

Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (35,087)

**Change in net assets of governmental activities (page 12)** \$ (346,166)

See Notes to Financial Statements.

## KEYSTONE AREA EDUCATION AGENCY 1

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Summary of Significant Accounting Policies**

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### **A. Reporting Entity:**

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

#### **B. Basis of Presentation:**

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.



## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

#### C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity:

Cash – Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Improvements other than buildings	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Assets, Liabilities and Fund Equity (continued):**

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### **Note 2. Cash**

The Agency's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district

### **Note 3. Iowa School Cash Anticipation Program (ISCAP)**

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank Iowa, N. A. and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Iowa School Cash Anticipation Program (ISCAP) (Continued)

A summary of the Agency's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-2004A	6/20/03	6/18/04	\$ -	\$ -	\$ -	\$ -
2003-2004B	1/30/04	1/28/05	785,312	-	780,000	-
2004-2005A	6/30/04	6/30/05	3,489,813	-	3,471,000	-
			<u>\$ 4,275,125</u>	<u>\$ -</u>	<u>\$ 4,251,000</u>	<u>\$ -</u>

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-2004A	\$ -	\$ 3,500,000	\$ 3,500,000	\$ -
2003-2004B	-	1,400,000	1,400,000	-
	<u>\$ -</u>	<u>\$ 4,900,000</u>	<u>\$ 4,900,000</u>	<u>\$ -</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-2004A	2.000%	1.051%
2003-2004B	2.000%	1.0385%
2004-2005A	3.000%	2.463%

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance End of Year</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,476,204	24,500	-	5,500,704
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	921,871	35,663	55,295	902,239
Library books	3,400,311	289,854	210,768	3,479,397
Total capital assets being depreciated	9,891,386	350,017	266,063	9,975,340
Less accumulated depreciation for:				
Buildings	1,741,030	192,445	-	1,933,475
Improvements other than buildings	33,480	4,185	-	37,665
Furniture and equipment	586,251	70,192	34,007	622,436
Library books and films	2,300,022	297,282	189,690	2,407,614
	4,660,783	564,104	223,697	5,001,190
Total capital asset being depreciated, net	5,230,603	(214,087)	42,366	4,974,150
Governmental activities capital assets, net	\$ 5,573,976	\$ (214,087)	\$ 42,366	\$ 5,317,523

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Instruction	\$ -
Student support services	3,405
Instructional staff support services	320,629
General administration	4,699
Business administration	11,593
Plant operations and maintenance	221,944
Central and other support services	1,834

Total governmental activities  
depreciation expense

\$ 564,104

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Capital leases	\$ 4,440,981	\$ 104,422	\$ 195,000	\$ 4,350,403	\$ 180,000
Compensated absences	373,955	115,380	80,293	409,042	65,105
	<u>\$ 4,814,936</u>	<u>\$ 219,802</u>	<u>\$ 275,293</u>	<u>\$ 4,759,445</u>	<u>\$ 245,105</u>

#### Capital leases:

The Agency is obligated under certain leases accounted for as capital leases. Fixed assets under capital leases included in buildings totaled \$4,687,173 at June 30, 2004. The leases end at various dates through May 1, 2017 at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under capital leases as of June 30, 2004:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 180,000	\$ 182,980	\$ 362,980
2006	210,000	175,011	385,011
2007	230,000	165,873	395,873
2008	260,000	155,780	415,780
2009	290,000	144,411	434,411
2010 and later years	<u>3,180,403</u>	<u>621,875</u>	<u>3,802,278</u>
<b>Total</b>	<u>\$ 4,350,403</u>	<u>\$ 1,445,930</u>	<u>\$ 5,796,333</u>

Payments under these agreements for the year ended June 30, 2004, including interest of \$150,683, totaled \$345,683.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 6. Operating Leases**

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June, 2007 through October, 2007.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

<b>Year Ending June 30,</b>	<b>Amount</b>
2005	\$ 95,156
2006	95,156
2007	95,156
2008	10,747
	<u>\$ 296,215</u>

Total rental expenditures for the year ended June 30, 2004 for all operating leases, except those with terms of a month or less that were not renewed, was \$95,156.

### **Note 7. Pension and Retirement Benefits**

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$610,308, \$584,065 and \$648,060, respectively, equal to the required contributions for each year.

### **Note 8. Risk Management**

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**KEYSTONE AREA EDUCATION AGENCY 1**



## **REQUIRED SUPPLEMENTARY INFORMATION**

**KEYSTONE AREA EDUCATION AGENCY 1****STATEMENT OF REVENUES, EXPENDITURES/EXPENSES  
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information  
Year Ended June 30, 2004**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
Revenues:			
Local sources	\$ 6,135,625	\$ -	\$ 6,135,625
State sources	4,891,443	-	4,891,443
Federal sources:	7,665,784	-	7,665,784
<b>Total revenues</b>	<b>18,692,852</b>	<b>-</b>	<b>18,692,852</b>
Expenditures/Expenses:			
Current:			
Instruction	117,248	-	117,248
Student support services	8,422,985	-	8,422,985
Instructional staff support services	5,624,220	-	5,624,220
General administration	2,691,044	-	2,691,044
Business administration	571,982	-	571,982
Plant operations and maintenance	768,618	-	768,618
Central and other support services	296,276	-	296,276
Non institutional programs	-	-	-
Debt service	345,683	-	345,683
<b>Total expenditures/expenses</b>	<b>18,838,056</b>	<b>-</b>	<b>18,838,056</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>(145,204)</b>	<b>-</b>	<b>(145,204)</b>
Other financing (uses), net	-	-	-
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing (uses)</b>	<b>(145,204)</b>	<b>-</b>	<b>(145,204)</b>
Balance, beginning of year	2,054,264	-	2,054,264
Balance, end of year	<u>\$ 1,909,060</u>	<u>\$ -</u>	<u>\$ 1,909,060</u>

See accompanying Independent Auditor's Report.

<b>Budget</b>		<b>Final to Actual Variance - Favorable (Unfavorable)</b>
<b>Original</b>	<b>Final</b>	
\$ 5,621,994	\$ 5,979,388	\$ 156,237
6,324,105	4,969,940	(78,497)
7,411,178	7,631,298	34,486
19,357,277	18,580,626	112,226

114,371	118,902	1,654
8,099,592	8,457,197	34,212
6,294,433	5,846,529	222,309
2,389,323	2,445,986	(245,058)
1,041,892	1,007,245	435,263
676,370	632,987	(135,631)
363,755	331,322	35,046
-	-	-
377,541	353,521	7,838
19,357,277	19,193,689	355,633

-	(613,063)	467,859
-	-	-

-	(613,063)	467,859
1,760,164	2,603,850	(549,586)
\$ 1,760,164	\$ 1,990,787	\$ (81,727)

**KEYSTONE AREA EDUCATION AGENCY 1**  
**June 30, 2004**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

## **OTHER SUPPLEMENTARY INFORMATION**

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2004**

	<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
<b>Assets</b>			
Cash	\$ 11,558	\$ 448,800	\$ 460,358
Due from other governments receivable	1,657	-	1,657
<b>Total assets</b>	<b>\$ 13,215</b>	<b>\$ 448,800</b>	<b>\$ 462,015</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 1,314	\$ -	\$ 1,314
Interest payable	-	30,900	30,900
Salaries and benefits payable	11,901	-	11,901
Total liabilities	13,215	30,900	44,115
Fund balances:			
Unreserved, undesignated fund balance	-	417,900	417,900
<b>Total liabilities and fund balances</b>	<b>\$ 13,215</b>	<b>\$ 448,800</b>	<b>\$ 462,015</b>

See Accompanying Independent Auditor's Report.

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2003**

	<b>Special Revenue</b>		
	<b>Juvenile Home</b>	<b>Debt Service</b>	<b>Total</b>
Revenues:			
Local sources	\$ -	\$ -	\$ -
State sources	132,229	-	132,229
<b>Total revenues</b>	<b>132,229</b>	<b>-</b>	<b>132,229</b>
Expenditures:			
Current:			
Instruction	115,912	-	115,912
Instructional staff support services	966	-	966
General administration	5,775	-	5,775
Plant operations and maintenance	9,576	-	9,576
Debt service	-	345,683	345,683
<b>Total expenditures</b>	<b>132,229</b>	<b>345,683</b>	<b>477,912</b>
<b>Deficiency of revenues under expenditures</b>	<b>-</b>	<b>(345,683)</b>	<b>(345,683)</b>
Other financing sources:			
Transfers in	-	353,539	353,539
<b>Excess of revenues and other financing sources over expenditures</b>	<b>-</b>	<b>7,856</b>	<b>7,856</b>
Fund balances beginning of year	-	410,044	410,044
Fund balances end of year	\$ -	\$ 417,900	\$ 417,900

See accompanying Independent Auditor's Report.

**SCHEDULE OF REVENUES BY SOURCE AND  
EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
For the Last Four Years**

	<b>Modified Accrual Basis</b>			
	<b>Years ended June 30,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Revenues:				
Local	\$ 6,135,625	\$ 5,926,165	\$ 5,692,600	\$ 5,752,762
State	4,891,443	5,588,592	5,503,191	6,084,755
Federal	7,665,784	6,644,135	5,714,781	4,669,090
<b>Total</b>	<b>\$ 18,692,852</b>	<b>\$ 18,158,892</b>	<b>\$ 16,910,572</b>	<b>\$ 16,506,607</b>
Expenditures				
Instruction	\$ 117,248	\$ 94,162	\$ 82,528	\$ 70,847
Student support services	8,422,985	7,666,455	11,754,658	6,797,940
Instructional staff support services	5,624,220	5,242,624	3,540,505	5,172,630
General administration	2,691,044	2,618,878	621,985	2,652,566
Business administration	571,982	476,412	234,492	416,531
Plant operations and	768,618	565,719	138,345	604,422
Central and other support services	296,276	320,905	266,429	227,439
Debt service	345,683	363,047	349,448	336,636
Facilities acquisition and	-	-	-	16,832
<b>Total expenditures</b>	<b>\$ 18,838,056</b>	<b>\$ 17,348,202</b>	<b>\$ 16,988,390</b>	<b>\$ 16,295,843</b>

See accompanying Independent Auditor's Report.



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2004**

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Part B, Education of Handicapped act (EHA)			
Special Education - Grants to States:			
Basic Entitlement 2004	84.027	4KB2-01	\$ 1,373,809
Basic Entitlement 2004	84.027	30401	4,740,925
Supplemental Support	84.027	3K72-01	91,764
Parent Coordinator Grant 2004	84.027	37401	68,818
Diagnostic Evaluation 2004	84.027	3K71-01	19,678
Para-Educator Projects 2004	84.027	3K76-01	7,000
LEA Success 4-Carryover	84.027	2K75-01	12,999
LEA Success 4	84.027	03K75-01	105,886
Conflict Resolution & Mediation	84.027	3K07-01	5,200
Pilot Exit Project	84.027	G-2K80-3	810
Brain Injury	84.027	3K79-01BI	1,000
			<u>6,427,889</u>
Special Education:			
Grants for Infants and Families with Disabilities			
Part C	84.181	C03-01	<u>178,406</u>
Special Education:			
SIG/IEP Initiative Grant	84.323	3IEP-01	<u>15,243</u>
Special Education - Preschool Grants:			
Preschool Grant 2003	84.173	03619-01	<u>306,729</u>
IA Technical Adequacy Program	84.369		<u>7,397</u>
NCLB-Enhancing Education through Technology	84.318X		<u>214,738</u>
Vocational Ed - Basic Grants to States, 03-04	84.048A		<u>272,341</u>

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2004

<b>Project Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Tech-Prep Education	84.243	Letter	\$ 82,038
Eisenhower Professional Development State Grants:			
Math and Science Grant	84.281A	Letter	59,028
Title II, Part A	84.281A	Letter	29,396
			88,424
NCLB-ELL-Title III	84.365		12,258
Title 1 - Reading First	84.357		13,733
NECAT	84.244	H224A90002802	28,882
Iowa Collaborative Assessment Modules	84.369		17,706
			\$ 7,665,784

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the financial statements of Keystone Area Education Agency 1, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 22, 2004. We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Keystone Area Education Agency 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no statutory comments in the prior year.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Keystone Area Education Agency 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that could be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control that we consider to be a material weakness as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Keystone Area Education Agency 1, and other parties to whom Keystone Area Education Agency 1 may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
July 22, 2004

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

**Compliance**

We have audited the compliance of Keystone Area Education Agency 1, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Keystone Area Education Agency 1's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Keystone Area Education Agency 1's management. Our responsibility is to express an opinion on Keystone Area Education Agency 1's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keystone Area Education Agency 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Keystone Area Education Agency 1's compliance with those requirements.

In our opinion, Keystone Area Education Agency 1 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

## **Internal Control Over Compliance**

The management of Keystone Area Education Agency 1 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Keystone Area Education Agency 1's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Keystone Area Education Agency 1 and other parties to whom Keystone Area Education Agency 1 may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
July 22, 2004

# **KEYSTONE AREA EDUCATION AGENCY 1**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2004**

### **Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 84.173 - Special Education - Preschool Grants
  - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

### **Part II: Findings Related to the General Purpose Financial Statements:**

#### **Instances of Non-Compliance:**

No matters were reported.

#### **Reportable Conditions:**

No matters were noted.

### **Part III: Findings and Questioned Costs For Federal Awards:**

#### **Instances of Non-Compliance:**

No matters were reported.

#### **Reportable Conditions:**

No matters were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-04    Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04    Budget: Expenditures during the year ended June 30, 2004 did not exceed the amounts budgeted.
- IV-C-04    Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04    Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-04    Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-04    Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-G-04    Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-H-04    Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-I-04    Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
July 22, 2004